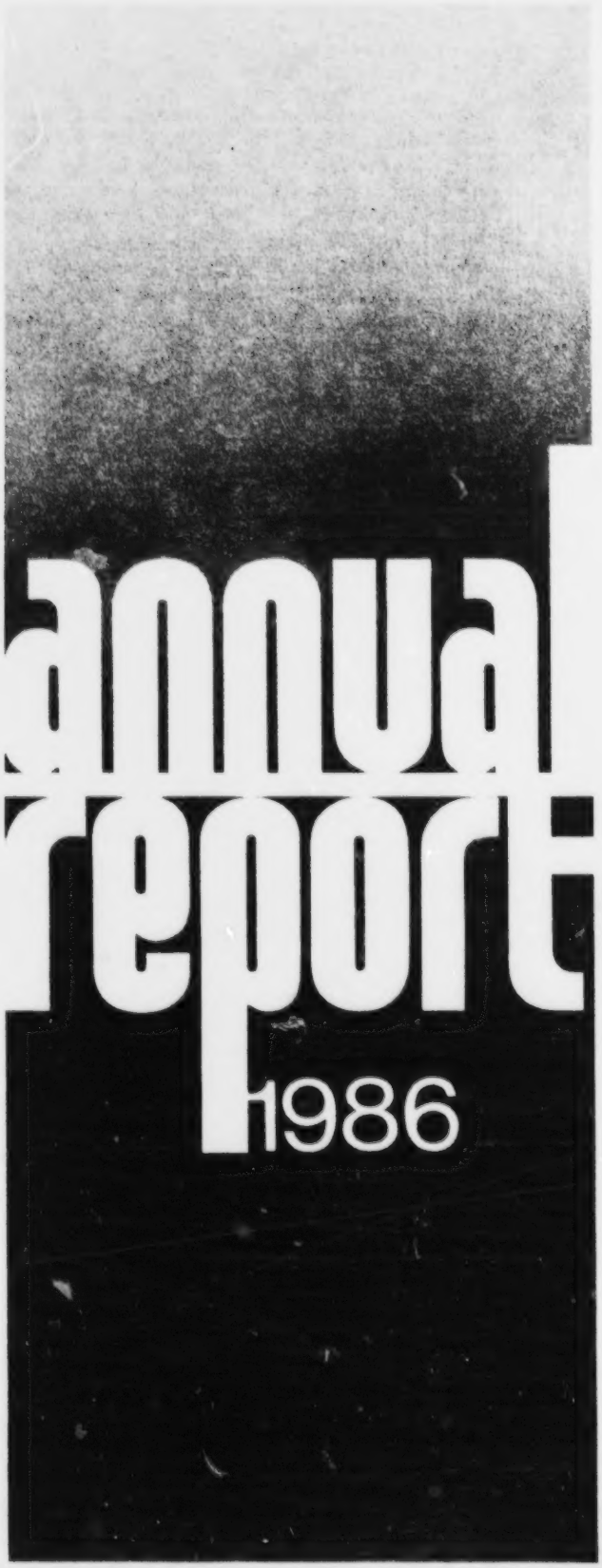


British Columbia Buildings Corporation

annual report

1986

86-05196/

The British Columbia Buildings Corporation is a Crown corporation established in 1976 to bring strict accountability to the provision and allocation of government accommodation.

Using a market based pricing system to the maximum extent possible, the Corporation establishes rents which are charged to government ministries for the space they occupy. The Corporation thus fulfills its mandate to be revenue dependent, and ministry budgets more accurately reflect the real costs of government programs.

The Corporation represents a unique departure from the ministry or department approach to the provision and maintenance of accommodation for government in three important ways:

- Overall direction is vested in a Board of Directors on a basis broadly comparable with the private sector.
- Operations are financed through revenue derived from charging for the space and services provided
- Capital projects are financed through borrowings and internally generated funds.

The Corporation is accountable to the Legislature through the Minister of Municipal Affairs who is a member of the Board of Directors.

Five Year Highlights

Year Ended March 31		$000's			
FINANCIAL	[illegible]	1985	1984	1983	1982
Gross Revenue	[illegible]	234,321	227,059	206,708	179,114
Operating Income	[illegible]	67,419	65,096	54,236	37,261
Interest	[illegible]	63,015	56,584	37,657	20,540
Net Income	[illegible]	4,404	8,512	16,579	16,721
Cash Flow	[illegible]	40,919	41,899	43,348	37,058
Total Assets	[illegible]	821,961	854,769	812,210	538,094
Operating Income Margin	[illegible]	28.8%	28.7%	26.2%	20.8%
Return on Investment	[illegible]	10.1%	9.6%	9.1%	9.0%
Return on Equity	[illegible]	4.2%	8.1%	17.0%	18.0%
PROPERTIES		Square Metres			
Owned	[illegible]	1,384,846	1,440,424	1,382,881	1,334,991
Leased	[illegible]	420,171	448,675	465,316	434,544
Maintained	[illegible]	104,998	159,321	147,273	298,585
	[illegible]	1,910,015	2,048,420	1,995,470	2,068,120
STAFF CHANGES					
Corporate Staff Base	[illegible]	727	874	1,080	1,126
Cumulative Function Acquisitions and Related Staff Transfers	[illegible]	333	90	54	54
Total Authorized Complement	[illegible]	1,060	964	1,134	1,180

Province of
British Columbia
OFFICE OF THE MINISTER

Ministry of
Municipal Affairs

Parliament Buildings
Victoria
British Columbia
V8V 1X4

June 5, 1986

His Honour
The Honourable Robert G. Rogers
Lieutenant-Governor of the Province
of British Columbia

MAY IT PLEASE YOUR HONOUR

The undersigned has the honour to present the Annual Report of the British Columbia Buildings Corporation for the year ended March 31, 1986.

Bill Ritchie

Bill Ritchie
Minister of Municipal Affairs
Province of British Columbia

President's Remarks

Toward the end of my remarks in last year's Annual Report, I set out a series of tough objectives for the 1985/86 fiscal year.

I am pleased to report that the collective efforts of our staff allowed us to achieve, and indeed exceed, most of these goals.

The Corporation maintained its annual record of profitability by achieving a net income of $3.2 million in 1985/86. While this represents a reduction of $1.2 million from the previous year, its achievement was substantially more difficult than in past years. Major downward pressures on net income resulted from a combination of a drop in occupancy revenue, increased interest costs and inflation.

Continued moderation in Government's demand for accommodation resulted in a 1.3% decline in revenue from ministries of Government, although total revenues were virtually unchanged from the previous year. At the same time, interest costs increased by $2.8 million, as a result of a one time foreign exchange loss and reduction in capitalized interest—partially offset by lower rates. The effect of inflation on operations, though moderate, nevertheless added an estimated $2.4 million to our costs.

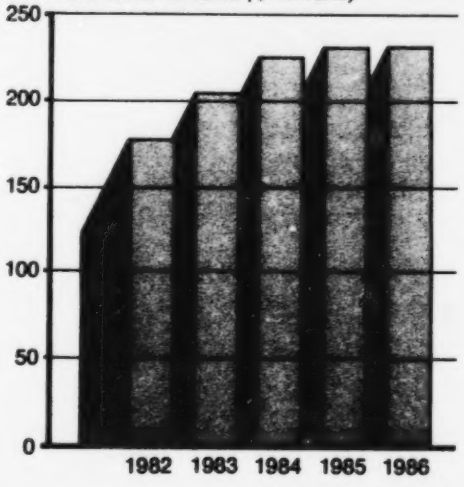
Offsetting these negative factors, over which the Corporation had little control, were our successes in the areas of opportunity which we could influence. We reduced our vacancy factor by almost 20% and, in the process, sold 94 surplus properties. These disposals not only eliminated the associated holding costs, but also generated $14.9 million and contributed $6.9 million to net income. The continued process of economic rationalization of in-house staff resources, whenever attrition permitted, resulted in a further 6% reduction in our total complement. These successes, along with others mentioned later in this Report, compensated for the major negative pressures, and allowed us to preserve a profitable position.

Capital expenditures increased from $20.3 million in 1984/85 to $23.6 million in the past year. Despite the increase, however, sufficient funds were generated internally to satisfy capital requirements while still reducing the Corporation's debt by over $12 million.

OTHER FINANCIAL INDICATORS

- Return on investment increased for the eighth consecutive year from 10.1% in 1984/85 to 10.4%.
- Return on equity declined from 4.2% to 3.0% as a direct result of the $1.2 million reduction in net income.
- Corporate overhead expenditures were reduced by a further 7.9%.
- In-house staff resources consumed only 14 cents of each revenue dollar, down from 15 cents the previous year.

TOTAL REVENUES *($ Millions)*

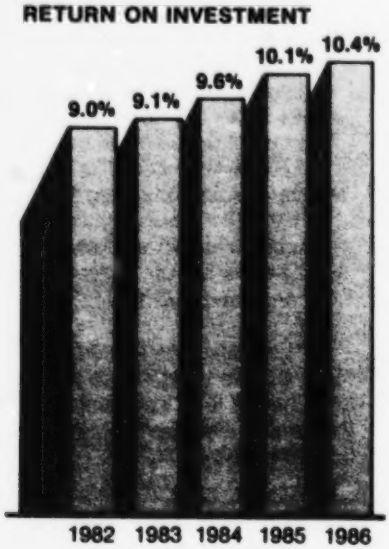


- Our operating income margin, perhaps the single most accepted indicator of controllable cost performance, continued its record of annual improvement since start-up by increasing to 29.4% from 28.8%.

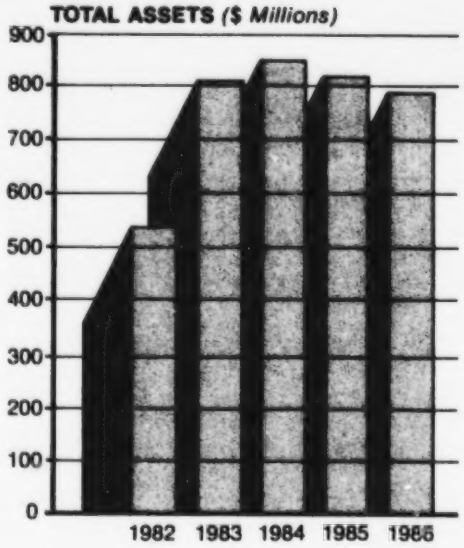
HUMAN RESOURCES

- Some 200 supervisory employees at all levels of the organization participated in an intensive "Excellent Manager" seminar to further strengthen their leadership effectiveness.
- Our continuing policy of planned economic reduction of staff levels, while reducing our complement by 61 positions, resulted in 114 employee promotions.
- As the manpower chart on page 4 illustrates, the Corporation is operating with only 39.8% of the levels employed by Government before start up of the Corporation nine years ago, despite an intervening 34% growth in our space portfolio. This has resulted in an expanded, though more economical, use of private sector consultants and contractors in satisfying the needs of our customers.
- Less than 1% of total hours worked were provided through the combined effect of overtime and temporary staffing.
- Employee absenteeism due to sickness remained at a reasonable level of 3.2% of available hours.
- Our one disappointment in the human resources area was our accident frequency rate which rose to 20.7 per million hours worked. This was an increase from a frequency of 12.5 the previous year and reversed a five year improvement trend.

RETURN ON INVESTMENT



TOTAL ASSETS *($ Millions)*



OPERATING COSTS

- Largely due to continued manpower reductions, Property Management operating and maintenance costs were reduced by $3.3 million dollars or 6.6% from 1984/85 levels.
- Energy consumption decreased by a further 7.8% during 1985. Our cumulative energy cost avoidance over the past seven years of $22.9 million has been achieved with a capital investment of $10.9 million. In effect, the British Columbia taxpayer has realized a return of $2.11 for every dollar the Corporation has invested in energy management and the return is growing at the rate of $6 million annually, a healthy 55% annual return on invested capital.
- We completed the second full year of operating the housekeeping functions which were transferred to us from the Ministry of Health in April, 1984, and have passed on accumulated savings to the Ministry in the amount of $742,000, or an annual cost reduction of 12.5%.

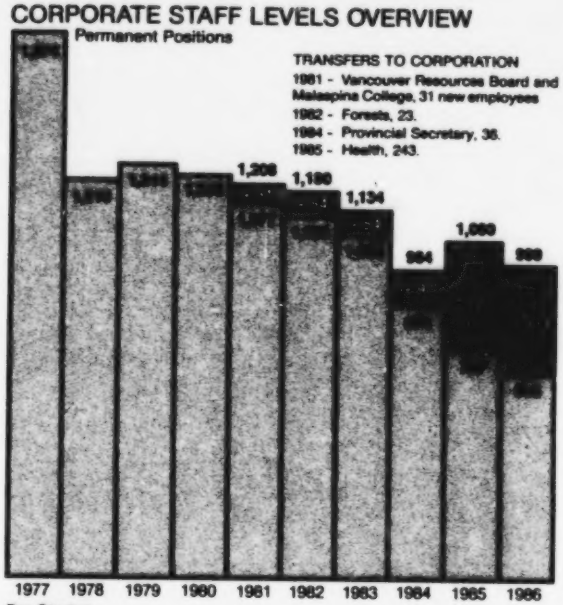
PERFORMANCE AUDITS

The Corporation, through its staff at all levels, has continued to deliver on the commitment that its customers are "PRIORITY ONE!"

Throughout its organization, the Corporation has the staff attitude and support systems in place to ensure that it delivers a market quality product and service in return for the market prices it charges.

In order to ensure that our customer oriented resolve and philosophy is more than a self-serving slogan, we continued our practice of recent years in commissioning several external audits of corporate

CORPORATE STAFF LEVELS OVERVIEW



Note: 1986 adjusted total of 666 represents 39.8% of pre-startup manning levels.

performance as it impacts our clients. These included:

- A Royal LePage Real Estate Services review of a large sample of owned properties in which the Corporation's operating and maintenance cost performance was measured against private sector benchmarks.
- A Client Re-Audit by P.A. Research Consultants of our field clients' perceptions of the Corporation's performance as compared with a similar review the previous fiscal year.

The results from these studies, as well as those from an audit of the perceptions of 4,000 landlords, consultants and contractors with whom the Corporation does business, are highlighted on page 13 and 14 in the theme article of this report. We are pleased to note that these studies again confirmed the market competitiveness of the Corporation's costs while, at the same time, demonstrating substantial satisfaction by its customer and contractor publics. Despite the generally positive findings, the results highlighted some opportunity areas for further improvement. These have been broadly shared with our employees and are included in our objectives for 1986/87.

OUTLOOK FOR 1986/87

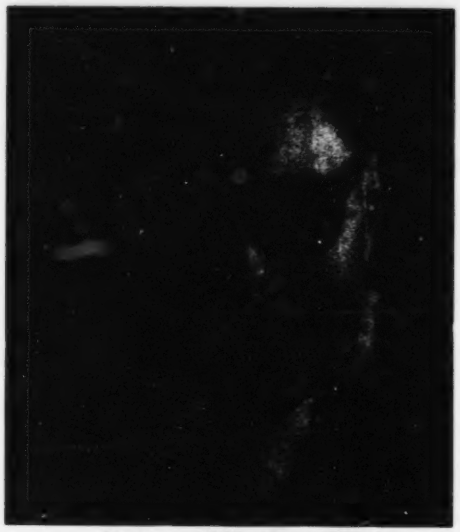
- Increased economic activity within the province is expected to be reflected in a modest 3.0% growth in revenues.
- Capital expenditures will continue to increase to almost $47 million as construction commences on some 23 projects and as existing projects continue to completion. Major approved projects expected to commence construction in 1986/87 include:
  - 160 bed Regional Correctional Centre in Kamloops
  - Combined Regional and District Highways Yard in Kamloops
  - 36 bed Youth Detention Centre in Prince George.
- Continued success in reducing our vacant space by a further 25% will offset additions to the portfolio and result in overall space inventory reduction of 1.2%.
- Despite the small decline in inventory of accommodation, leased space is expected to increase by some 2% as we continue to encourage the private sector to develop and lease back all but the most specialized of facilities required by our clients.
- Gains on property disposals are expected to moderate to approximately $4 million as the number of surplus, disposable properties diminishes.
- We anticipate a $2 million decrease in net interest expenses with the elimination of the past year's exposure to foreign exchange losses on U.S. borrowings, coupled with some refinancing at reduced rates.
- Despite increased captial expenditures, sufficient capital is expected to be generated internally to avoid adding to the Corporation's total debt.
- We expect to achieve further rationalization of in-house staff levels wherever attrition, financial advantage and fairness to our staff combine to make such reductions prudent.
- We expect to achieve a further 4% reduction in energy consumption levels and to further reduce our overhead costs by 2%.
- We remain committed to the delivery of PRIORITY ONE service and value to all our customers and will continue to challenge and measure our performance through independently conducted audits.

The above challenges, if successfully met in 1986/87, are budgeted to produce a net income of $4 million, a level sufficient to maintain the return on investment and operating income margin levels of the past year.

In June, 1985, we were saddened by the sudden passing of our founding Director, Dr. Gordon Shrum. Always a proponent of accountability in the delivery and use of accommodation by Government, Dr. Shrum did not miss a single Board meeting in his seven years as a Director. He was particularly proud and pleased when Quebec followed the British Columbia model and replaced its public works organization with a Crown corporation, largely patterned on ours, in 1984. He was to miss by a few months, another province, this time Saskatchewan, also following suit. Dr. Shrum's wisdom and counsel are missed by all of us on the Board of Directors, and, indeed, by the entire Corporation.

I would like to thank all members of our Board for their support and guidance throughout the past year, along with all of our employees, whose collective efforts made the accomplishments I have reported possible. Particular appreciation is extended to our Chairman, Tom Toynbee, and to our Minister Responsible, the Honourable Bill Ritchie, for their countless hours spent working on behalf of the Corporation, as well as to Bob Watters and Dennis Truss, who completed six years of outstanding service on the Board.

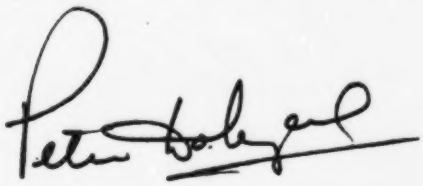
Toward year end, we welcomed John Wittenberg and Gordon Robson as new Board members. We look forward to working with them in meeting the challenges of the future.



January 1896-June 1985

Gordon Merritt Shrum, O.C., O.B.E., M.M., E.D., Ph.D., LL.D. (S.F.U.), D.Sc. (McMaster, U.B.C.), F.R.S.C.

Founding member of the Board of Directors, upon whose recommendation the province established the B.C. Buildings Corporation.



Peter Dolezal
President and Chief Executive Officer

Balance Sheet

	March 31 1986	1985
	$000's	
Assets		
Real estate investments		
Income-producing properties (Note 2)	**510,429**	517,597
Income-producing properties under construction (Note 3)	**15,048**	23,869
Land held for development (Note 4)	**11,355**	17,960
	536,832	559,426
Investment in British Columbia Place Ltd. (Note 5)	**205,000**	205,000
Corporate properties and equipment (Note 6)	**9,169**	8,979
Unamortized debt discount and issue expenses	**19,560**	28,723
Other assets (Note 7)	**20,791**	19,833
	791,352	821,961
Liabilities and Equity		
Long-term debt (Note 8)	**555,835**	555,242
Notes payable to the Province of British Columbia (Note 9)	**54,885**	67,543
Short-term debt (Note 10)	**38,951**	48,488
Other liabilities (Note 11)	**36,698**	45,405
Contributions by the Province of British Columbia (Note 12)	**59,021**	62,516
Retained earnings	**45,962**	42,767
	791,352	821,961
Commitments (Note 13)		

On Behalf of the Board:

George A. Rigsby, Director

Robert E. Parkinson, Director

The accompanying notes are an integral part of these statements.

Auditors' Report

To the Lieutenant-Governor-in-Council
Province of British Columbia

We have examined the balance sheet of British Columbia Buildings Corporation as at March 31, 1986 and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of British Columbia Buildings Corporation as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
CHARTERED ACCOUNTANTS

Vancouver, Canada
May 9, 1986

Statement of Income

	Year ended March 31 1986	1985
	$000's	
Revenue		
Rentals	**215,519**	216,414
Other income	**19,028**	17,907
	234,547	234,321
Expenses		
Property management	**57,168**	59,334
Leases	**45,464**	44,508
Depreciation	**26,550**	26,099
Energy	**16,262**	16,777
Property taxes and grants	**11,168**	10,758
General and administrative	**8,882**	9,426
	165,494	166,902
Net income before interest	**69,053**	67,419
Interest (Note 14)	**65,858**	63,015
Net Income	**3,195**	4,404

Statement of Retained Earnings

	Year ended March 31 1986	1985
	$000's	
Balance, beginning of year	**42,767**	42,767
Net income	**3,195**	4,404
	45,962	47,171
Dividend	**—**	4,404
Balance, end of year	**45,962**	42,767

The accompanying notes are an integral part of these statements.

Statement of Changes in Financial Position

Financial Resources Provided By:	Year ended March 31 1986	1985
	$000's	
Operations		
Net income	**3,195**	4,404
Charges not requiring current cash outlay		
Depreciation and amortization	**39,256**	36,515
Cash flow from operations	**42,451**	40,919
Long-term debt	**25,000**	75,000
Other	**(3,590)**	12,754
	63,861	128,673

Financial Resources Used For:		
Real estate investments	**2,422**	13,081
Reduction of long-term debt	**16,363**	4,500
Reduction of notes payable to the Province	**12,658**	63,124
Reduction of short-term debt	**9,537**	31,155
Sinking funds	**8,955**	7,777
Decrease (increase) in contributions by the Province	**3,495**	(89)
Dividend	**—**	4,404
Corporate properties and equipment, net	**1,724**	580
Decrease in other liabilities	**8,707**	4,141
	63,861	128,673

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

March 31, 1986

1. Accounting Policies

(a) Real Estate Investments
Real estate investments and corporate properties and equipment are recorded at cost less accumulated depreciation. In addition to land and direct costs, amounts capitalized to real estate investments during development and construction include property taxes and the applicable portion of both interest on general borrowings and general and administrative expenses.

(b) Depreciation
Real estate investments and corporate properties and equipment are depreciated on an individual basis by the straight-line method over their estimated useful lives or lease terms. Depreciation is prorated by month in the year of acquisition or disposal.

The estimated useful lives or lease terms of income-producing and corporate properties are between five and forty years. The estimated useful lives of all other assets are between three and ten years.

(c) Income Taxes
The Corporation is exempt from Federal and Provincial income taxes.

(d) Sinking Funds
Payments made to sinking funds with respect to retirement provisions of sinking fund bonds and debentures are netted against long-term debt until such time as the bonds or debentures are redeemed and cancelled. Interest earned on the sinking funds is treated as interest income with a corresponding increase in the sinking funds.

(e) Amortization of Debt Discount and Issue Expenses
Debt discount is amortized by the effective rate of interest method and issue expenses are amortized on a straight-line basis, both over the terms of the applicable debt.

(f) Foreign Exchange
Monetary liabilities in foreign currencies are translated at the rate in effect at the balance sheet date unless covered by forward exchange contracts, in which case they are translated at contract rates. The related interest expense is translated at average rates for the year. Unrealized foreign currency gains or losses on long term monetary liabilities are reported as a deferred charge or credit and amortized over the remaining terms of the related liabilities on a straight-line basis.

2. Income-Producing Properties

	1986	1985
	$000's	
Net book value:		
Cost	**664,372**	645,835
Accumulated depreciation	**(153,943)**	(128,238)
	510,429	517,597
Activity:		
Net book value, beginning of year	**517,597**	515,904
Properties transferred from income-producing properties under construction	**32,462**	34,385
Disposals, net	**(14,614)**	(7,888)
Depreciation expense	**(25,016)**	(24,804)
Net book value, end of year	**510,429**	517,597

3. Income-Producing Properties Under Construction

Balance, beginning of year	**23,869**	37,953
Direct development and construction costs	**21,463**	16,279
Capitalization of interest	**440**	2,280
Capitalization of general and administrative expenses	**1,738**	1,742
Cost of properties completed and transferred to income-producing properties	**(32,462)**	(34,385)
Balance, end of year	**15,048**	23,869

4. Land Held For Development

Balance, beginning of year	**17,960**	17,292
Capitalization of interest and property tax	**977**	1,499
Disposals, net	**(7,582)**	(831)
Balance, end of year	**11,355**	17,960

Notes to the Financial Statements

March 31, 1986

5. Investment in British Columbia Place Ltd.

The Corporation owns the only outstanding share of British Columbia Place Ltd. (B.C. Place) and has an investment of $205 million in that company. B.C. Place is a British Columbia Crown corporation which is developing a major site at False Creek in Vancouver, including B.C. Place Stadium and the site leased for Expo '86. Effective April 1, 1986, B.C. Place acquired additional properties and assumed related liabilities from the Province of British Columbia. Its summary financial statements are as follows:

British Columbia Place Ltd.
Balance Sheet

	March 31	
	1986	1985
	$000's	
Assets		
Land and site services	**131,313**	130,940
Stadium	**159,887**	162,609
B.C. Pavilion and Roundhouse	**52,694**	22,526
Other assets	**8,726**	8,622
	352,620	324,697
Liabilities and Equity		
Accounts payable and accrued liabilities	**17,433**	17,776
Long-term debt	**138,832**	105,972
Equity investment by shareholder, British Columbia Buildings Corporation	**205,000**	205,000
Deficit	**(8,645)**	(4,051)
	352,620	324,697

Statement of Operations

	Year ended March 31	
	1986	1985
	$000's	
Revenue—land operations	**4,123**	693
Cost of land operations	**4,132**	1,674
Other expenses	**1,902**	830
	6,034	2,504
Loss from land operations	**1,911**	1,811
Loss from stadium operations	**2,683**	2,078
Loss for the year	**4,594**	3,889

The accounting policies of B.C. Place are consistent with those of the Corporation except for depreciation of certain Stadium assets costing $101 million which is on the sinking fund method.

Under the British Columbia Place Act, the rights of the shareholder of B.C. Place are exercisable by the Minister of Finance for British Columbia and, accordingly, the investment is accounted for in the Corporation's accounts at cost. Any future dividends declared by B.C. Place will accrue to the Corporation and will be included in income.

6. Corporate Properties and Equipment

	1986	1985
	$000's	
Cost:		
Office and data processing equipment	**8,827**	7,431
Corporate properties and leasehold improvements	**2,779**	2,969
Maintenance equipment	**2,220**	2,127
Vehicles	**1,969**	1,819
	15,795	14,346
Accumulated depreciation	**(6,626)**	(5,367)
	9,169	8,979

7. Other Assets

Cash	**77**	—
Temporary investments	**13,900**	5,000
Accounts receivable		
- Province of British Columbia	**4,758**	10,141
- Other	**1,460**	2,455
Deferred foreign exchange loss	**206**	1,842
Prepaid expenses	**390**	395
	20,791	19,833

8. Long-Term Debt

Total outstanding:

	1986			1985		
	Number of Series	Average Effective Interest Rate	Principal **$000's**	Number of Series	Average Effective Interest Rate	Principal $000's
Payable in Canadian currency	29	13.12%	**566,241**	28	13.34%	541,241
Payable in United States currency (US $20,000,000; 1985 - US $32,000,000)	1	13.03%	**28,183**	2	13.03%	43,635
			594,424			584,876
Sinking funds on deposit with the Minister of Finance for British Columbia, relating to long-term debt of $268,041,000 (1985- $243,041,000)			**(38,589)**			(29,634)
			555,835			555,242

Coupon rates on the long-term debt range from 4.75% to 15.69%.

At the option of the Minister of Finance for Canada, Sinking Fund Debentures with an aggregate principal of $165,041,000 maturing between 1997 and 2003 may be called prior to maturity under certain conditions on six months written notice.

Of the long-term debt outstanding, $238,268,000 (1985 - $230,655,000) is payable to the Minister of Finance for British Columbia. The Province has unconditionally guaranteed the principal and interest of all other long-term debt issued by the Corporation.

New issue during the year ended March 31, 1986:

Series	Coupon Rate	Maturity Date	Principal **$000's**
BCBC-JY4	9.45%	March 27, 1993	**25,000**

Aggregate sinking fund and principal payments on all outstanding issues for each of the next five years:

	$000's
1986/87	**54,243**
1987/88	**163,500**
1988/89	**17,500**
1989/90	**62,500**
1990/91	**17,500**

Notes to the Financial Statements

March 31, 1986

9. Notes Payable to the Province of British Columbia

The promissory notes are non-interest bearing, callable on 30 days notice and re-payable semi-annually in varying amounts to March 31, 1992.

Payments over the next five years:

	$000's
1986/87	**11,386**
1987/88	**10,386**
1988/89	**10,386**
1989/90	**10,386**
1990/91	**10,386**

10. Short-Term Debt

The short-term notes are payable to the Minister of Finance for British Columbia and mature at varying dates to June 23, 1986. These notes represent issues by the Ministry of Finance of which $6,454,000 (1985 - $14,182,000) are in United States currency and are fully hedged. The effective interest rates range from 9.14% to 12.46%, and average 10.85% for the notes outstanding.

11. Other Liabilities

	1986	1985
	$000's	
Due to bank, unsecured	**—**	452
Accounts payable and accrued liabilities	**19,668**	22,754
Retentions on contracts	**892**	1,125
Accrued interest payable		
- Province of British Columbia	**7,515**	8,051
- Other	**8,623**	8,619
Dividend payable	**—**	4,404
	36,698	45,405

12. Contributions by the Province of British Columbia

Balance, beginning of year	**62,516**	62,427
Land acquired from (returned to) the Province, net	**(3,495)**	89
Balance, end of year	**59,021**	62,516

13. Commitments

The Corporation estimates that the cost to complete projects under construction will be $27,000,000 of which $13,000,000 has been committed.

The Corporation has entered into leases with third parties to provide space for its client ministries and its head office for varying periods up to the year 2003, at a total aggregate net rental of approximately $166,000,000. Most leases are for between five and ten years and include renewal options.

Minimum annual lease payments which will be charged to operations in subsequent years, for leases committed at March 31, 1986:

	$000's
1986/87	**37,000**
1987/88	**32,000**
1988/89	**28,000**
1989/90	**21,000**
1990/91	**16,000**
Post 1990/91	**32,000**
	166,000

14. Interest

	1986	1985
	$000's	
Interest on long-term debt	**64,212**	60,875
Other interest	**4,247**	8,544
Amortization of debt discount and issue expenses	**9,391**	8,600
Amortization of foreign exchange loss	**3,315**	1,816
	81,165	79,835
Deduct:		
Interest assistance	**10,000**	10,000
Interest capitalized	**1,377**	3,727
Interest earned	**3,930**	3,093
	15,307	16,820
	65,858	63,015

The Province of British Columbia has agreed to provide assistance of up to $10 million per annum towards the interest expense incurred by the Corporation in connection with its investment in B.C. Place, until the earlier of 1992 or such time as the cash flow to the Corporation from its investment exceeds the related interest expense.

15. Related Party Transactions

The Corporation is incorporated under the British Columbia Buildings Corporation Act as a Crown corporation of the Province of British Columbia, and is an agent of the Crown.

The Corporation received 90% of its total revenues from Provincial Government ministries. These revenues consist primarily of rents that are determined with reference to market; however, in such cases where comparable market rates do not exist, rents are based on the amortization of the capital costs.

During the year ended March 31, 1986, the Corporation had property transactions with the Province and its agents. Properties acquired had an aggregate value of $1,234,000 which was determined by reference to market values. Properties returned had a value of $5,605,000 which was determined by reference to net book values.

VALUE ADDED IN THE DELIVERY OF ACCOMMODATION

The British Columbia Buildings Corporation believes that a Crown Corporation is a public trust; a trust which demands that its resources be managed in a way that adds value to every step in the process of providing the accommodation service needed by government for the most efficient delivery of its programs. For the Corporation, the concept of "Value Added" means applying its expertise in property management, leasing, construction and client services in a way that reduces costs while optimizing service to its clients. These savings accrue directly to the government, both as client and as shareholder.

In carrying out its mandate, the Corporation takes a private sector approach to the conduct of its business. It charges market derived rents and fees for all space and services and is expected to operate efficiently so as to achieve a market comparable return on invested capital.

To the greatest extent possible it must: manage its portfolio of properties effectively and economically using established standards in a consistent and equitable manner; achieve an economic balance between the use of in-house staff and private sector resources; and be resourceful and innovative in such endeavours as acquisition of leased space, energy management and construction of new facilities.

MARKET COMPARABILITY

It is natural that the Corporation look to the private sector for comparisons of its costs and services. This is accomplished mainly through the process of appraising properties through independent appraisers, comparing base rents on owned properties with those negotiated in leases, employing consultants and contractors. In addition, the Corporation has sought specific comparisons through eight special studies to assess its service levels to clients, its methods and levels of overhead cost recovery, the comparative value of the leases it negotiates in the market place, its operating and maintenance costs, and even its management effectiveness.

Of particular interest are three recent studies. The first compared operating costs on a square foot basis of buildings managed by the Corporation versus those managed by the private sector; the second analyzed the attitudes of suppliers of materials and services to the Corporation; and the third surveyed leased office space costs.

The first study, conducted by Royal LePage Real Estate Services Ltd. consisted of a comparison of 22 buildings from the Corporation's portfolio to 41 private sector buildings. The study found that the Corporation's operating and maintenance costs in this sample, for the 1984 calendar year, were

In aggressively keeping vacant space to a minimum, an unused commercial mall in Prince George—the Corporation's Plaza 400—was transformed into much needed interim court facilities, office space for the Government Agent, and a dispatch centre for Emergency Health Services.

$4,439,000. Royal LePage, in applying private sector experience to those same buildings, arrived at a comparable cost of $5,446,000. The Corporation's consistent approach to cost effective operations, combined with its economies of scale, indicated a significant cost advantage and, therefore, a saving to the provincial taxpayers of over $1 million per year in the buildings sampled. Royal LePage's concluding comment was that:

> ***The British Columbia Buildings Corporation has attained close to an optimum performance in the circumstance in which it operates.***

The second study surveyed some 4,000 companies and individuals providing space, services and materials to the Corporation throughout the province: landlords who lease space; general and trade contractors in construction and maintenance; property management firms providing janitorial, security, landscape and like services; and consultants such as architects, engineers, real estate appraisers, etc. The study, which elicited a 46% response rate, was done in 1985 by P.A. Research Consultants, who concluded in their report:

> ***The Corporation is perceived as being lean, efficient and tough, but fair and responsive in its dealings with vendors.***

The survey showed the Corporation as being effective in obtaining leases and contract work at the lowest, best-value prices, and as being comparable to the private sector in making business arrangements. The respondents felt that the Corporation's staff was responsive to client needs and interested in saving money.

The third study also conducted by Royal LePage found that on average, the Corporation negotiated leases 25% below market in Victoria and 13% below market in Vancouver—clearly a major added value for government and the taxpayer. The report states:

> ***It is therefore reasonable to extrapolate for this period that the Corporation was successful in saving its clients approximately 11.6 million net present value dollars as a direct result of its effectiveness in dealing with landlords in the open market. For this same period the value of the savings expressed in actual dollars over the lease terms would be approximately $32 million.***

Again, the value added is achieved through obtaining space in the market place at highly competitive prices. This process has been expanded during the past year to include more developer proposals for building facilities such as Ministry of Forests offices and yards for lease back to the Corporation.

The Corporation's Property Management staff maintains a variety of buildings at locations throughout the province.

International recognition in energy conservation has been gained by two Corporation buildings through awards from the American Society of Heating, Refrigerating, and Air-Conditioning Engineers.

The Vancouver Law Courts and Robson Square complex was second, world-wide, for excellence in conservation in the category of institutional and public assembly buildings. In the semi-finals, covering an area from Alaska to Oregon and east to Manitoba, Robson Square was first and Glendale Hospital, Victoria, second.

Savings close to $23 million have been gained by the Corporation's energy conservation program that was started seven years ago.

APPLIED STANDARDS

The Corporation applies strict performance standards for construction, services and space allocation in an equitable manner across all ministries. These standards are well known in the supply community and result in best value selection of services and space on behalf of the Corporation's clients. There are also established technical standards to ensure that space is efficient as to layout and of sufficient quality to adequately serve the required function. It is estimated that the application of these standards has resulted in savings averaging some four million dollars a year since implementation eight years ago. Working with these standards, and applying its expertise in all aspects of construction, leasing and operating and maintaining space, the Corporation's staff manages the entire accommodation provision process, allowing client ministries to concentrate on their program responsibilities.

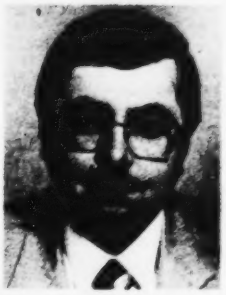
SPACE MANAGEMENT

The activities of the Corporation are demand driven. Its prime responsibility is to provide and manage space in response to the program requirements of the provincial government, and the first step in meeting those responsibilities is working with client ministries to determine their space needs. Joint planning assists clients in maximizing space utilization by combining dispersed operations into consolidated space wherever economically possible. Through this centralized coordinating role, the Corporation and its clients are able to achieve the most efficient use of owned or leased space, utilize vacant space or permit the disposal of surplus space in much the same manner as would a private sector firm. In this way, value added is optimized not only in terms of space allocation, but also through the concentration by clients and the Corporation on their individual areas of expertise: by the clients—program delivery; by the Corporation—the economical satisfaction of the client's space needs to facilitate program delivery. One of the special benefits of this division of accountability is that the Corporation, not ministries of government, assumes the market related real estate risks and thereby provides an added level of certainty to ministry planning.

We believe that this approach, modelled after the private sector, combined with a strong sense of adding value throughout, has worked well for the government. It has impressed other provincial governments as well to the extent that Quebec and Saskatchewan have recently established Crown corporations to handle accommodation in their respective jurisdictions. In both cases, the new corporations were patterned after the B.C. Buildings Corporation.

Board of Directors

Thomas A. Toynbee, Chairman
Businessman
Ganges, British Columbia



Peter Dolezal
President and Chief Executive Officer
British Columbia Buildings Corporation
Victoria, British Columbia

Bill Ritchie
Minister of Municipal Affairs
Province of British Columbia

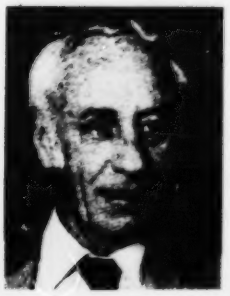
* George A. Rigsby
Rigsby, Lea, Barr and Co.
Quesnel, British Columbia

* Robert E. Parkinson
Businessman
Victoria, British Columbia

* Evan M. Wolfe
Businessman
Vancouver, British Columbia

John Wittenberg
Retired School Teacher
Abbotsford, British Columbia
(from December 16, 1985)

Gordon Robson
Businessman
Maple Ridge, British Columbia
(from March 19, 1986)



Robert Watters
Retired Businessman
Vancouver, British Columbia
(until January 31, 1986)

Dennis F. Truss
Vice-President Administration and
Chief Financial Officer
British Columbia Buildings Corporation
Victoria, British Columbia
(until November 1, 1985)

Dr. Gordon M. Shrum
Vancouver, British Columbia
(until June 20, 1985)

* members of Audit Committee

CORPORATE MANAGEMENT

President and Chief Executive Officer Peter Dolezal

Stephan Marmash, General Counsel and Assistant Secretary

Planning and Client Services Group
Vice-President Bryan Wilson

Bob Clemenhagen, Client Services Director
Bill Robertson, Client Services Director
Ted Meadley, Client Services Administration Manager
Gary James, Space Management Manager
John Robinson, Pricing and Real Estate Manager

Development Group
Vice-President John Davies

Ben Vivian, Programming and Estimating Manager
Peter Moyles, Project Management Manager
Peter McKenna, Technical Standards and Research Manager

Property Management Group
Vice-President Al Kemp

Alex Thomson, Region 1 Director
Evan Brewer, Region 2 Director
Don Lyster, Region 3 Director
Jack Meredith, Technical and Energy Management Manager
Bill Young, Administrative Support Manager

Administration Group
Vice-President and Chief Financial Officer Dennis Truss

Dennis Jaques, Management Systems Manager
Brian Kennedy, Corporate Controller
Ray Cantelon, Leasing and Corporate Purchasing Manager
Jim Harrison, Human Resources and Corporate Affairs Manager
Bill Heschuk, Staff and Organizational Development Manager
Michael Grannum, Internal Audit Manager

Michael Grannum, Corporate Secretary

AUDITORS

Peat, Marwick, Mitchell & Co.
Chartered Accountants
Vancouver, B.C.

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Back cover: The Vancouver Law Courts and Robson Square complex is a glittering display of lights for the duration of Expo 86.—Kharen Hill photo